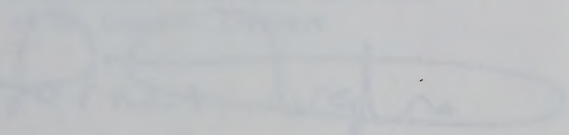


CLEARPORT PETROLEUMS LTD.

1988 ANNUAL REPORT

Approved and signed on behalf of the Board of Directors



David E. Hill
President

Dear Shareholder,

The past year has been one of challenge for the petroleum business with declining oil prices and shareholder equity values. These external events have made it difficult for your company to raise the funds required to expand its existing asset base which now amounts to 7.3 billion cubic feet of natural gas and 50,000 barrels of oil and liquids. Of this total some 3.5 billion cubic feet of natural gas reserves are shut-in awaiting either access to markets or the capital required to place them on stream. In addition, the majority of the gas reserves which are on stream are produced for only 6 or 7 months of the year due to the nature of the contract that we have with the sole gas buyer in this area of Southern Alberta. With oil and gas revenues at just less than \$300,000 per year and a debt position of equal magnitude our ability to expand has been limited.

On September 29, 1988 the controlling share position of Clearport held by Robert M. Ross was acquired by DCC Equities Limited, a merchant banking company owned 50% by Dynamic Capital Corporation. Coincident with this purchase was a \$1 million private placement of common and flow through shares also acquired by DCC Equities Limited. The details of this transaction are included in the Information Circular.

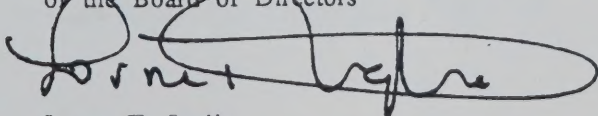
Over the next few months your management's efforts will be concentrated upon the upgrading and conversion of the reserve base into as much cash flow as possible. The first example of this will be your company's 17.5% interest in a shut-in gas condensate well in the Drumheller of Eastern Alberta which is now being readied for production with the construction of the necessary surface and tie-in facilities.

During early November your Company also participated in a successful Sunburst sand oil development well in the Black Butte area of Southern Alberta where it retains a 23% interest. The well appears to have a production capacity of approximately 50 barrels per day. One other test drilled in the same area was abandoned. We are also considering two farm-in proposals in the Drumheller and Pembina Southwest areas of Alberta. Our final course of action will be determined by a geological review of these two properties which is currently in progress. We are also contemplating a 9 well development program in the Black Butte area of Southern Alberta at a cost of \$350,000 should we be able to negotiate a year round delivery gas contract.

Your new management will seek primarily development opportunities to expand Clearport as a gas producer. The gas reserve base established by the previous management group provides us with a firm foundation from which we can move forward now that the Company has adequate funds to finance its endeavors.

On behalf of the shareholders I would like to thank Robert M. Ross, the founder of your company for his tireless efforts and for the high degree of cooperation he afforded us in this transition. We look forward to the next year with enthusiasm and a good deal of optimism. In our view, the volatility of oil prices currently being experienced creates an opportunity for a company such as yours which has adequate funding, a clean balance sheet and a gas reserve base that can be converted into earnings and cash flow at relatively low risk.

Respectfully submitted on behalf
of the Board of Directors

A handwritten signature in dark ink, appearing to read "Lorne T. Inglis", is written over a horizontal line.

Lorne T. Inglis
President

Digitized by the Internet Archive
in 2023 with funding from
University of Alberta Library

https://archive.org/details/Clea0217_1988

CLEARPORT PETROLEUMS LTD.
 CONSOLIDATED BALANCE SHEET
 June 30, 1988

	1988	1987
ASSETS		
CURRENT		
Cash	\$ 3,317	\$ 47,474
Accounts receivable (Note 3)	83,734	84,324
Prepaid expenses and other assets	21,383	5,871
Inventory	2,392	2,392
	<u>107,826</u>	<u>139,061</u>
PROPERTY, PLANT AND EQUIPMENT	<u>63,124</u>	<u>1,192,545</u>
	<u>\$ 1,715,874</u>	<u>\$ 1,331,627</u>
LIABILITIES		
CURRENT		
Accounts payable (Note 3)	\$ 242,401	\$ 291,187
Current portion of long-term debt	22,224	22,224
	<u>264,625</u>	<u>313,411</u>
LONG-TERM DEBT (Note 4)	<u>142,000</u>	<u>142,000</u>
DEFERRED INCOME TAXES	<u>17,012</u>	<u>1,421,216</u>
	<u>\$ 423,637</u>	<u>\$ 1,776,627</u>
SHAREHOLDERS' EQUITY		
PAID-UP CAPITAL (Note 3)		
Issued	375,182	375,182
Unissued shares	<u>1,012,520</u>	<u>1,012,520</u>
RETAINED EARNINGS (DEFICIT)	<u>280,065</u>	<u>280,065</u>
	<u>\$ 1,715,874</u>	<u>\$ 1,776,627</u>

Approved by the Board:

Robert L. Thompson
Robert L. Thompson

CLEARPORT PETROLEUMS LTD.
CONSOLIDATED BALANCE SHEET

June 30, 1988

	<u>1988</u>	<u>1987</u>
ASSETS		
CURRENT		
Cash	\$ 8,412	\$ 62,476
Accounts receivable (Note 3)	85,756	84,552
Income taxes receivable	31,363	5,031
Prepaid expenses	<u>4,341</u>	<u>2,703</u>
	129,872	154,762
PROPERTY, PLANT AND EQUIPMENT (Note 2)	1,083,154	1,182,065
OTHER, at cost		
Drilling deposit	<u>-</u>	<u>10,000</u>
	<u>\$ 1,213,026</u>	<u>\$ 1,346,827</u>
LIABILITIES		
CURRENT		
Accounts payable (Note 3)	\$ 343,501	\$ 201,137
Current portion of long-term debt	<u>51,000</u>	<u>84,991</u>
	394,501	286,128
LONG-TERM DEBT (Note 4)	241,000	288,898
DEFERRED INCOME TAXES	<u>17,037</u>	<u>63,814</u>
	<u>652,538</u>	<u>638,840</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)		
Issued		
1,861,403 shares	973,181	973,181
RETAINED EARNINGS (DEFICIT)	<u>(412,693)</u>	<u>(265,194)</u>
	<u>560,488</u>	<u>707,987</u>
	<u>\$ 1,213,026</u>	<u>\$ 1,346,827</u>

Approved by the Board:

Robert M. Ross Director

Robert C. Ross Director

CLEARPORT PETROLEUMS LTD.
CONSOLIDATED STATEMENT OF INCOME
For the Year Ended June 30, 1988

	<u>1988</u>	<u>1987</u>
REVENUE		
Production and administration	\$ 281,706	\$ 349,847
Less: Crown royalties	<u>37,158</u>	<u>53,306</u>
	244,548	296,541
Interest and other	<u>3,701</u>	<u>4,260</u>
	<u>248,249</u>	<u>300,801</u>
EXPENSES		
Administration	235,745	244,758
Depletion	89,717	26,664
Depreciation	30,381	30,786
Interest on long-term debt	37,859	48,399
Lease and surface rentals	12,343	9,627
Operating	62,597	86,116
Other royalties and taxes	<u>5,246</u>	<u>5,228</u>
	<u>473,888</u>	<u>451,578</u>
Loss before income taxes	(225,639)	(150,777)
INCOME TAXES (Note 6)		
Deferred (recovery)	(46,777)	(32,657)
Royalty Tax Credit	<u>(31,363)</u>	<u>(46,440)</u>
	<u>(78,140)</u>	<u>(79,097)</u>
NET LOSS	\$ <u>(147,499)</u>	\$ <u>(71,680)</u>
Loss per share	7.92¢	3.92¢

CLEARPORT PETROLEUMS LTD.
CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)
For the Year Ended June 30, 1988

	<u>1988</u>	<u>1987</u>
Balance, beginning of year as restated (Note 7)	\$(265,194)	\$(193,514)
Net loss	(147,499)	(71,680)
Balance, end of year	<u>\$(412,693)</u>	<u>\$(265,194)</u>

CLEARPORT PETROLEUMS LTD.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended June 30, 1988

CASH RESOURCES PROVIDED BY (USED FOR)	<u>1988</u>	<u>1987</u>
OPERATING ACTIVITIES		
Net loss	\$ (147,499)	\$ (71,680)
Items not affecting cash		
Depreciation and depletion	120,098	57,450
Deferred income taxes	(46,777)	(32,657)
Changes in non-cash operating items		
Accounts receivable and prepaids	(2,842)	18,848
Income taxes receivable	(26,332)	(2,696)
Accounts payable	<u>142,364</u>	<u>169,273</u>
	<u>39,012</u>	<u>138,538</u>
FINANCING ACTIVITIES		
Reduction in long-term debt	(81,889)	(140,611)
Drilling deposit refunded	<u>10,000</u>	<u>-</u>
	<u>(71,889)</u>	<u>(140,611)</u>
INVESTING ACTIVITIES		
Purchase of fixed assets	(21,187)	(13,247)
Proceeds from disposal of assets	<u>-</u>	<u>83,453</u>
	<u>(21,187)</u>	<u>70,206</u>
INCREASE (DECREASE) IN CASH FOR THE YEAR	(54,064)	68,133
Cash (bank indebtedness), beginning of the year	<u>62,476</u>	<u>(5,657)</u>
CASH, END OF THE YEAR	\$ <u>8,412</u>	\$ <u>62,476</u>

CLEARPORT PETROLEUMS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1988

1. ACCOUNTING POLICIES

a) Consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Clearport Petroleum Inc.

b) Property, Plant and Equipment

The company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, lease rentals on non-producing properties, cost of drilling both productive and non-productive wells and all technical and administrative overheads directly related to exploration and development activities. Costs are accumulated on a country by country basis and are amortized using the unit of production method based upon estimated proved developed reserves in each country, converted to equivalent units on the basis of estimated related energy content. The reserves are determined by the company and substantiated periodically by independent engineers.

In applying the full cost method, the company calculates a "cost centre ceiling" which restricts the capitalized costs less accumulated depletion and depreciation on a country by country basis, from exceeding an amount equal to the estimated value of future net revenues (adjusted for general and administrative expenses and corporate income taxes) from proved reserves (based on prices at year end date) plus the estimated fair values of the company's undeveloped acreage. The price used for these valuations was \$1.75 Canadian per MCF of gas.

Where capitalized costs exceed the "cost centre ceiling", the excess costs are written down as additional depletion, which amounts to \$28,835 in the current year.

Substantially all the exploration and development activities related to oil and gas are conducted jointly with others. These financial statements reflect only the company's proportionate interest in such activities.

c) Depreciation

All equipment, furniture and fixtures are recorded at cost and depreciation is provided using the straight-line method, at the rates set out in Note 2.

CLEARPORT PETROLEUMS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1988

1. ACCOUNTING POLICIES (continued)

d) Deferred Income Taxes

The company records income taxes on the tax allocation basis. Deferred income taxes result primarily from claiming capital cost and other allowances in excess of depreciation and depletion recorded in the accounts.

e) Foreign Currency Translation

The company records foreign currency transactions on the basis of the actual rates of exchange in effect at the time of the transactions.

2. PROPERTY, PLANT AND EQUIPMENT

	<u>Rate</u>	<u>Cost</u>	<u>Accumulated Depletion & Depreciation</u>	<u>Net Book Value</u>	
				<u>1988</u>	<u>1987</u>
Petroleum & Natural Gas Leases	Note 1(b)	\$1,915,009	\$ 897,527	\$1,017,482	\$1,086,013
Petroleum & Natural Gas Equipment	10%	297,467	231,795	65,672	95,790
Furniture & Fixtures	10%	<u>14,200</u>	<u>14,200</u>	<u>-</u>	<u>262</u>
		<u>\$2,226,676</u>	<u>\$1,143,522</u>	<u>\$1,083,154</u>	<u>\$1,182,065</u>

CLEARPORT PETROLEUMS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1988

3. RELATED PARTY TRANSACTIONS

Related party interests held in properties owned by the company are as follows:

<u>Property</u>	<u>Clearport Holdings Ltd.</u>	<u>R. M. Ross</u>
Producing Wells		
6-23-1-9-W4th	50%	-
10-30-1-9-W4th	-	10% to payout, reverting to 5%
11-30-1-9-W4th	-	5%

At June 30, 1988, \$61,483 included in accounts receivable and \$228,229 included in accounts payable was due from (to) related parties.

Clearport Holdings Ltd. is a company wholly owned by Mr. Robert M. Ross.

4. LONG-TERM DEBT

	<u>1988</u>	<u>1987</u>
Toronto Dominion Bank demand loan, carrying interest at prime plus 1%	\$ 512,000	\$ 637,000
Less: Cash collateral account	-	(43,111)
Loan of Mr. R.M. Ross	(188,000)	(188,000)
Loan of Clearport Holdings Ltd.	<u>(32,000)</u>	<u>(32,000)</u>
	292,000	373,889
Less: Portion included under current liabilities	<u>51,000</u>	<u>84,991</u>
	<u>\$ 241,000</u>	<u>\$ 288,898</u>

As a result of revised financing arrangement with the bank, a previously outstanding demand loan was consolidated with the loans of Clearport Holdings Ltd. and Mr. Robert M. Ross. The projected repayment schedule of the full loan is as follows:

December 31, 1988	\$ 45,000
December 31, 1989	90,000
December 31, 1990	90,000
December 31, 1991	90,000
December 31, 1992 and thereafter	<u>197,000</u>
	<u>\$512,000</u>

The loan is secured by

- A general assignment of book debts
- An assignment of the proceeds of oil and gas contracts.
- Unlimited personal guarantee of Mr. R.M. Ross, a director and major shareholder including specific personal assets of the director.

CLEARPORT PETROLEUMS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1988

5. SHARE CAPITAL

a) Authorized Capital

By virtue of a special resolution dated December 19, 1986, the company's authorized capital was changed to the following:

- (i) an unlimited number of common shares, without nominal or par value.
- (ii) an unlimited number of Senior Preferred shares without nominal or par value.
- (iii) an unlimited number of Junior Preferred shares without nominal or par value.

b) Stock Option

Under agreements dated May 9, 1986, options were granted as follows:

R.M. Ross	94,405 shares @ \$0.40 per share
R.C. Ross	94,405 shares @ \$0.40 per share

These option agreements have been approved by the Alberta Stock Exchange and expire May 9, 1991. To date, no part of the option has been exercised.

6. INCOME TAXES

a) The company's income tax provision (recovery) is made up as follows:

	<u>1988</u>	<u>1987</u>
Expected income taxes payable (recovery)	\$ (106,050)	\$ (70,865)
Add (deduct) income taxes attributable to:		
a) expenses disallowed for tax purposes	17,644	25,364
b) Alberta Royalty Tax Credit	(31,363)	(46,440)
c) Other	27,394	11,524
c) Losses not recognized for tax purposes	<u>14,235</u>	<u>1,320</u>
	\$ <u>(78,140)</u>	\$ <u>(79,097)</u>

CLEARPORT PETROLEUMS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1988

6. INCOME TAXES (continued)

- b) The company has incurred non-capital losses for Canadian income tax purposes of \$104,881, the tax effect of which has not been recorded in these financial statements. These losses are available to reduce taxable income until:

1994	\$ 37,900
1995	<u>66,981</u>
	<u>\$104,881</u>

7. PRIOR PERIOD ADJUSTMENTS

As a result of overpaid royalties in prior years and the corresponding reduction in Alberta Royalty Tax Credits, the balance of retained earnings at the beginning of the year has been restated by a net amount of \$26,194. The relevant prior years comparative figures have been restated as a result of the above.

The restated opening balances are calculated as follows:

	<u>1988</u>	<u>1987</u>
Opening balance as previously reported	\$ (291,388)	\$ (218,359)
Adjustment detailed above	<u>26,194</u>	<u>24,845</u>
Balance, as restated	\$ (<u>265,194</u>)	\$ (<u>193,514</u>)

8. DIRECTORS AND OFFICERS

As at June 30, 1988 the company had four directors and two officers.

Unpaid remuneration for the year ended June 30, 1988 in the sum of \$115,000 has been credited to the current accounts of the officers and is included in the administration expense for the year.

CLEARPORT PETROLEUMS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1988

9. RESTRICTIONS ON CORPORATE CASH FLOW

Subsequent to a meeting with the company's bankers on July 15, 1986, restrictions have been put into effect, with regards to the company's cash flows.

The bank has stipulated that all future revenues of the company be utilized in order of preference, as follows:

- a) pay interest charges on the bank loan;
- b) pay for lease rentals and well operating costs;
- c) funds remaining after above payments will then be available to cover general and administrative expenses up to a maximum of \$5,000 per month.
- d) additional funds, if any, will be directed towards debt reduction.

10. CONTINGENCY

These financial statements have been prepared on the basis of a going concern. The company is dependant on its ability to sell oil and gas products and in the event that these sales are not forthcoming, the realization of its assets would be dependant on the market conditions at that time.

AUDITORS' REPORT

To the Shareholders of
Clearport Petroleum Ltd.

We have examined the consolidated balance sheet of Clearport Petroleum Ltd. as at June 30, 1988 and the consolidated statements of income, retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the consolidated financial position of the company as at June 30, 1988 and the consolidated results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

August 31, 1988

McCLELLAND & COMPANY
Chartered Accountants

CLEARPORT PETROLEUMS LTD.

BEFORE SEPTEMBER 29, 1988

OFFICERS & DIRECTORS

Robert M. Ross
President & Director

Harold L. Farney
Vice-President & Director

Robert C. Ross
Secretary-Treasurer & Director

Beverly J. Pfeffer
Director

AFTER SEPTEMBER 29, 1988

OFFICERS & DIRECTORS

Lorne T. Inglis
President & Director

Milt I. Erickson
Vice-President, Finance & Director

Dennis Laviolette
Director

Andrew G. Love
Director

Carolyn T. Scheidt
Corporate Secretary

TRANSFER AGENTS & REGISTRAR

Guaranty Trust Company of Canada
401 - 9th Avenue S.W.
Calgary, Alberta T2P-3C5

BANKERS

The Toronto - Dominion Bank
2 Calgary Place
340 - 5th Avenue S.W.
Calgary, Alberta T2P-2P6

HEAD OFFICE

Suite 1500,
340 - 12th Avenue S.W.
Calgary, Alberta T2R-1L5

LISTED

Alberta Stock Exchange
6th Floor, 300 - 5th Avenue S.W.
Calgary, Alberta T2P-3C4

Vancouver Stock Exchange
609 Granville Street
Vancouver, B.C. V7Y-1H1

TRADING SYMBOL

CPR